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‘I see myself as an empirical Keynesian’

Interview with Henri Sterdyniak



Henri Sterdyniak is a scientific adviser at the OFCE research institute – the Observatoire français des conjonctures économiques – where he has been working for more than 30 years, among other posts as a director of the department ‘economics of globalization’. From 1985 until 2013 he was also a professor of economics at the University Paris Dauphine, France. He is also one of the founding members of the Économistes Atterrés (the Appalled Economists), an association of French economists who object to neoliberal policies, formed in 2010. He has written extensively on various topics, including empirical macroeconomics, monetary policies, fiscal policies, globalization, European policies, and more specifically social policies and retirement systems. He has published hundreds of articles and reports, lately with Catherine Mathieu.

How did you come to economics?

I was studying at the École Polytechnique, which is a general engineering school. One day an economist from the Communist Party, Philippe Herzog, who had also studied at the Polytechnique, came to the school looking for economists with the strong belief that we had to do economics for the people. The working class needed us because the Communist Party would soon have governing responsibilities together with the Socialist Party, and the Communist Party did not have enough experts in economics. It was 1972 and that is just how some students at the École Polytechnique decided to start a career in economics. They were convinced that it would contribute to the development of the society within the political agenda of the Left, which would soon be governing France. Consequently, I joined the ENSAE, the National School of Statistics and Economic Administration. I also joined the economic team of the Communist Party working on the elaboration of the common programme of the Left.

Who were the economists who influenced you most back then?

First Edmond Malinvaud, a professor at the ENSAE, and the general disequilibrium school. The objective was to build theoretical models to explain disequilibrium situations in specific markets, with fixed prices. We investigated how those imbalances impact wage and price developments. Those models were highly complex because disequilibrium situations were changing from one market to another and because each market was affected by spillovers arising from disequilibrium in the other markets. These disequilibria impacted consumption and investment behaviour, and hence the capital stock and the productive capacity of firms. Ultimately we studied whether these adjustments had stabilizing or destabilizing effects.

Another influence was the theory of monopoly capitalism, which goes back to Paul Boccara and Philippe Herzog. This theory analysed how modern capitalist economies worked by looking at the close relationship between large monopolist firms and the State. The fusion between the State, large companies and financial institutions used to be seen as a perverse system. Today, public intervention in the course of action of large firms and financial institutions would be welcomed.

Was your work on disequilibrium theory linked to the seminar in econometrics or did it happen as part of a university research institute?

This work took place when I was at the INSEE, the National Institute of Statistics and Economic Studies, under the influence of Malinvaud. Those models with explicit disequilibria were really up-and-coming. We were convinced that they could offer an alternative to general equilibrium models. They showed that different types of economic situations may occur depending on specific disequilibrium. The most frequent disequilibrium was the situation of Keynesian unemployment and not classical unemployment or overemployment, which were in reality merely theoretical situations. Firms set their prices with a certain mark-up so the normal equilibrium is inside the Keynesian area; economies need to be hit by a strong shock to get out of this area. Even in France, the success of this theory was short-lived. Its theorists were not able to make it evolve to integrate the new aspects of modern economies like financialization and globalization.

It seems you also took an excursion into monetarism and its (lack of) empirical foundations?

When I graduated from the ENSAE, I worked on monetary issues with Jacques Melitz, developing models of French and British monetary systems. Our papers on the simulation of monetary systems got published in *The American Economic Review* and *The Economic Journal*. As a monetarist Jacques Melitz had a great idea: he claimed that the equilibrium between the money demand and the money supply was the key to macroeconomic equilibrium. So the issue is, what is the good definition of money: M0, M1, M2 or M3? For his project we would develop alternative models and verify which model between M0, M1, M2 and M3 was the most accurate. By doing so I discovered that the question was completely absurd. By integrating the behaviour of the central bank and that of commercial banks into a satisfying macroeconomic model, we realized that these different measures made no sense and that it was credit supply that really mattered. Then I wrote my first published paper called 'Regarding money supply' ('Du côté de l'offre de monnaie'), which was published in the *Annales de l'INSEE*. I showed that money is endogenous and what really matters is credit, the reaction function of the central bank and the behaviour of banks as credit suppliers. Non-financial economic agents choose between a large variety of financial assets; it is rather arbitrary to separate monetary assets and non-monetary ones; the money supply does not exist; what only matters is credit supply. During my career, I wrote several articles on the importance of credit (or more generally of financing), emphasizing that the concept of money is meaningless in modern financial economies and supporting the idea of macroeconomics without money.

Was it linked to the post-Keynesian theory of endogenous money?

Yes, many scholars rediscovered the theory of endogenous money as laid down by post-Keynesian economists. For those who specialized in empirical macroeconomics it was obvious. Empirical models would include a reaction function of the central bank, which would explain how it sets interest rates. They would also take the behaviour of firms towards

indebtedness into account. At no time would they describe an equilibrium between money supply and demand. Money had to be endogenous. This was supported by economists like Jacques Le Bourva or Vivien Levy-Garboua, from the French central bank, who explained that the money multiplier does not exist. Instead, there is a credit divisor.

What did you do after that?

I worked on short-term economic analysis and macroeconomic simulations at the INSEE. We built a macroeconomic model called METRIC for short- and medium-term analyses. We got many criticisms because METRIC did not include a financial sector. Pierre Villa and myself built a model which integrated both the financial and real sectors. As a result, we could provide a perfect and consistent model of a flow-of-funds matrix.

Was this a coherent stock-flow model, an econometric SFC model?

It wasn't called an SFC model, but it was entirely consistent, as the financial sector was fully integrated. However, this didn't last long, because it was extremely costly to maintain. In order to provide estimates and projections, we needed data. We were constantly limited by the delay required to obtain coherent financial data. But the main difficulty was to establish links between the financial and the real sector. For this model to actually work, real behaviour had to be impacted by financial stocks; consumption had to depend on the gap between current and desired wealth; investment had to depend on the gap between the actual and the desired debt level, etc. Exchange-rate modelling was also very problematic since we tried to estimate a French demand for foreign assets and a foreign demand for French assets. Another problem was that we had to simulate financial prices, such as equity prices and housing prices. We worked a lot but we were not able to provide a model which was satisfactory enough for the INSEE economic forecasts. Later, I became an associate professor at the Paris Dauphine University (in 1985). By then I was authorized to supervise doctoral dissertations. With this so-called research accreditation and my articles published in scientific journals such as *The American Economic Review* and *The Economic Journal*, I didn't need to do a PhD.

When did you join the OFCE?

Let me tell you two stories. From 1975 to 1980 at the INSEE, Patrick Artus and myself worked intensively with METRIC, our model of the French economy. In 1980, we were asked to study what is named in France the 'TVA sociale', which is a reform aimed at replacing the employer's social contributions by a value-added tax, to create jobs. We published a paper explaining that this project was illusory, that the right strategy to create jobs was to cut labour costs and to tax capital to induce substitution effects between capital and labour. The Prime Minister, Raymond Barre, didn't like it at all. He decided that the INSEE needed some competition and he promoted the creation and funding of new independent research institutions: the OFCE was related to the university, the IRES (Institute of Economic and Social Research) to the trade unions and IPECODE (Institut de prévisions économiques et financières pour le développement des entreprises) to the employers' organizations. At the INSEE we were strong opponents of this idea because we were convinced that pluralism should be promoted within the INSEE and the public administration, not outside, in an academic organization. Then, in 1981, the Left won the election and the French financial administration was very reluctant to support the new Left government. In 1983, with the austerity turn, I was given to understand that I was too independent and insubordinate, that

my work was too original for the financial administration, and that I would be better off outside the INSEE, for instance at the OFCE. That's how I joined the OFCE.

How long did you stay at the OFCE?

I'm still there, 35 years later. The great advantage of the OFCE is that it is an independent research centre. In contrast to the public administration, which has more or less an official doctrine, we can publish freely at the OFCE, the only criterion being the scientific quality of the work. That's an interesting issue for pluralism: besides scholars, the other economists working for the administration, for banks or firms, for central banks or for the European commission, have to follow a certain way of thinking. This must be a difficult situation: either you keep quiet and make a career or you leave.

How did you become a founding member of the Économistes Atterrés in 2010?

First, let me answer another question. To start with, from a theoretical point of view, I see myself as an empirical Keynesian. Empirical Keynesians observe the economic situation and its developments. They try to describe them in the most accurate way, by doing econometrics and empirical studies. However, they don't have a set theoretical framework. Empirical Keynesians also have the somewhat naïve belief that capitalism can be improved, that capitalism could work in a more satisfactory way with a large social compromise for a mixed economy. On the one hand there is the private sector and capitalism, and on the other hand there is 50 per cent of GDP which is socially redistributed and managed, with social benefits, progressive taxes, free schooling and so on. Naïve Keynesian scholars defend this system. They also believe that the State should influence the economic situation to maintain full employment. And some of them, like me, believe that the State should engage in industrial policy. That is what we fight for. For instance, I fought for the French pay-as-you-go system when in the 1990s many economists were criticizing our public retirement system because it delivered a return of only 2 per cent per year in real terms, far below the 10 per cent that they expected from financial markets.

That's one point. The other is that we need an economic policy that supports economic activity. We should not comply with arbitrary norms regarding public debt and deficit. Instead, we need a functional fiscal policy, which looks after the economic situation and not after a so-called public finance equilibrium. That's the point of view of naïve Keynesians who are pragmatic. They are not post-Keynesians because they don't claim to have an original theoretical point of view.

From 1995 to 2007, we had to live with the myth of the new economy, with the belief that everything would be fine because of the development of new technologies, trade and financial globalization. Under this myth, finance makes stabilization policies and social insurances useless. The fiscal multiplier is nil, or even negative. Heterodox economists talked to deaf ears when they evoked the growth of inequalities and the risks of financial instability.

In 2007/2008, the crisis showed that the current financial capitalism is an unsustainable regime, not only in terms of financial instability but also for the economy as a whole. Thanks to trade globalization and the neoliberalism counter-revolution, capital has increased its profitability requirement, so wages and public spending must decrease, which is not compatible with the macroeconomic equilibrium. Growth must be sustained by financial bubbles and debt increases, which end with a financial crash and a debt crisis. In 2007/2008 the system broke down and in 2009 we had a Keynesian moment where both the political leaders and the technocracy reacted with appropriate economic policies

and financial regulations. But this moment did not last; very rapidly, the IMF and the European Commission once again advocated restrictive fiscal policies and liberal structural reforms.

This is when you thought that this was enough, and that something had to be done?

Yes, in 2010, after a seminar, we were five people, sitting down in a café, talking about the current economic situation and thinking that it was dramatic. With the implementation of austerity policies and the lack of efficient measures against the financial sector, there was a risk of making the same mistakes all over again. As economists we felt that we had the responsibility to intervene and explain, that financial markets are inefficient and destabilizing, that financial speculation is bringing us to the brink of a catastrophe, that we need to change the rules in Europe, that euro area member states should not obey the 'stupid' rules of the Stability Pact, that Europe must change its objectives, should stop requesting member states to reform towards the liberal model and instead fight inequalities and control globalization. That's why we wrote the *Manifeste des Économistes Atterrés* (Ashkenazy et al. 2010).

It was a very successful text, which allowed us to build and strengthen the association of the *Économistes Atterrés*. It is quite influential now in France; it enables us to contribute to every single debate over economic policies and offer an alternative discourse to orthodox economists. The *Économistes Atterrés* is of course a pluralist movement with Marxist, pragmatic Keynesians, post-Keynesians, labour economists, ecologists The main objective is to fight neoliberalism. But we need also to gain from our differences. Keynesians must take into account the ecological considerations. We cannot leave the productive economy to capitalists, with the State intervening only for stabilization and redistribution purposes. It is not possible to let large firms impose their choices with regard to production and consumption, with their profits as a unique criterion, as it leads towards an ecological catastrophe. More powers should be given to workers and citizens.

The Économistes Atterrés are very influential in the French debate. You have a book that can be bought everywhere. Catherine Mathieu told me that you were travelling around the country and that there were halls that you were filling, and that of course you were often invited to radio and television shows, so you were highly successful. Do you have a feeling that the movement has become stronger, or is it the same or maybe weaker now?

The movement was very successful from the beginning. We went to every city in France, well, every city with a university, and presented the *Manifesto*. We are a reference in the economic debate, because people know that we have an alternative point of view. That's why the media invite us. But then the French people got very disappointed by the five-year presidency of François Hollande, which is a bit difficult to deal with. It's hard to propose alternatives in the current context.

How do you feel about the two authors of the book,¹ the translation of which could read as 'The economic negationism and how to get rid of it', and their criticism of the Économistes Atterrés and other heterodox economists? Do you think it's a reaction to your growing influence?

Yes, it is a criticism of the *Économistes Atterrés*, the AFEP – the French Association of Political Economy – and the magazine *Alter Éco*. There are many explanations.

1. See Cahuc/Zylberberg (2016).

First you have to consider that it is not us but the MEDEF, the French Employers' Association, which has the largest influence in the debate over political economy in France. On behalf of the employers, the MEDEF launched an aggressive campaign claiming that the State has to cut taxes on firms and on wealthier people, to reduce social contributions, to reduce social and public spending, to weaken labour rights, to facilitate lay-offs and help private entrepreneurs. This was based on the claim that only entrepreneurs are productive, while the public sector lives at the expense of the private sector. The Valls–Macron government has accepted this discourse. This campaign enjoyed a great success among journalists who have criticized François Hollande for not having sufficiently reduced public spending. This is the dominant ideology in the media, and in a large part of the population. We try to fight this neoliberal ideology, and it's not an easy task in France. Almost all the media belong to a few business owners, which is a rather special situation. On top of that, orthodox economists are taking over the universities and it's becoming very difficult for heterodox scholars to get full professor positions.

The two authors of the book, Cahuc and Zylberberg, want to destroy the credibility of those who have a different methodological approach. For them there is only one economic science, which considers the Walrasian model as the ultimate goal, with all disequilibria arising from institutions which introduce rigidities, as argued in Anglo-Saxon economic journals. In 2006, they would have written that economists who did not believe in DSGE models, in the efficiency of financial markets or in the negative fiscal multiplier were negationists.

As labour-market *experts*, Cahuc and Zylberberg advocate the reduction or even the abolition of the minimum wage, the reduction of labour costs for low-wage earners and the weakening of labour rights, and they believe that the labour market will automatically reach an equilibrium point without these rigidities. Their work is often financed by federations of companies, whose labour force consists mostly of low-wage earners. From an ethical point of view, this is quite ironic.

They have this crazy theory that the only problem is the failure of the French labour market, while completely ignoring the problems created by globalization and financial instability, problems which hit the workers' situation in all developed industrial countries. They ignore all macroeconomic issues. They pretend that there is only one valid way of doing economic research. Their so-called scientific work really makes no sense. For example, their claim that working-time reduction in France did not have any effect on employment is based on a single study, which had earlier been criticized because of its methodological shortcomings.² Many serious works showing that the shift to the 35-hour working week created nearly 350 000 jobs contradict this claim.

Two last questions. First, a more general question about the constraints of the eurozone and the Maastricht treaty: Is there a solution that could help the European community to get out of the economic slump we're experiencing now? Or do we have to leave the euro?

The eurozone is something that has never been properly thought out and exhibits many *original sins*. It is not only the *stupid* Stability and Growth Pact or the fiscal compact. Experience shows that member states are different and they do not converge. Thus they need flexible exchange rates. The fixed exchange rate led to catastrophes and misguided strategies, such as the German strategy to accumulate external surpluses without exchange-rate appreciation, or the strong external indebtedness of southern countries

2. See Coriat et al. (2017).

before the crisis. The eurozone project has really been poorly designed. Hence there are two solutions. The first one is to pull out of the eurozone. We know that it's going to be difficult and that we'll have to go through a crisis but it is possible: a left-wing party comes to power in a big country and refuses the Stability and Growth Pact, the fiscal compact and the national reform programs. The second possibility is for all the European countries to agree and make the eurozone work. In this case, they remove the Stability and Growth Pact, the fiscal treaties and the liberal structural reforms. They introduce pragmatic management of the eurozone consisting of collectively finding, through coordination without arbitrary rules, the right solutions to the actual imbalances. Currently this means that the euro area needs expansionary policies because it is characterized by a massive trade surplus and high unemployment. Eurozone member states need large investment plans centred on an ecological transition: wages should increase in surplus countries; social security systems should converge upwards; fiscal systems should be harmonized with minimum rates for the wealthiest people and large firms. Industrial policies should be geared towards the ecological transition, with specific measures to favour the southern countries. We know how to do it, but the problem is to convince all member states that it is the solution. How do you tell the Germans, 'listen, there is no problem, just raise your pensions by 25 per cent and you'll help your pensioners and your European partners; you can do it, you have an 8-percentage-point trade surplus'? The problem is to change the European goals and make the member states stop obsessing about public debt and deficit. How do you make them realize that the goal must be full employment? How do we change the objectives of European institutions, when Europe is used by the leading classes and the European and national technocracies to impose structural liberal reforms?

And the last question, probably the most difficult one. What advice do you have for young post-graduates who want to specialize in economics and are heterodox? What should they focus on, should they do a lot of econometrics? Should they compromise with orthodox models, should they fully claim their heterodox thinking or should they be pragmatic Keynesians?

I think that you have to be a pragmatic Keynesian and to request the right of doing economics in a different way. We need research in political economy to try to explain and understand how institutions work, how we can improve them and what are the social, political and economic compromises that make the society progress in the right (or the wrong) direction. Until now we lived in Europe with a compromise that emerged from the Second World War, with a mix of capitalism and social democracy. This compromise is now questioned by the rise of neoliberalism, of financial globalization and the fact that leading classes increasingly see the future of their companies outside Europe. Today, an interesting research topic would be to try to understand the evolution of our society and economy with all the contradictions that it entails. Of course, Europe is a great contradiction too. On the one hand it is dominated by neoliberalism; on the other hand it is a beautiful dream. Europe must remain the leading zone for social protection, labour rights and ecological transition.

So, basically, you should be a pragmatic and institutionalist economist?

Yes, you could be a pragmatic and institutionalist Keynesian. Whether you will find a job by doing so is a tricky question!

This interview was conducted in French by Achim Truger and Marc Lavoie in October 2016, at the FMM conference in Berlin. We thank Camille Lafortune for the transcription and Aanor Roland for the translation.

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